

INSTITUTIONAL TRANSFORMATION SUPPORT PROGRAM FOR THE INSTITUTO SALVADOREÑO DEL SEGURO SOCIAL

(ES-0134)

EXECUTIVE SUMMARY

Borrower:	The Republic of El Salvador	
Executing agency:	Instituto Salvadoreño del Seguro Social [Salvadoran Social Security Institute] (ISSS)	
Amount and source:	Borrower:	US\$1.6 million
	IDB (OC):	US\$5.8 million
	Total:	US\$7.4 million
Financial terms and conditions:	Amortization period:	15 years
	Disbursement period:	3.5 years
	Grace period:	3.5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75% per annum on the undisbursed balance
	Currency:	Single Currency Facility in U.S. dollars
Objectives:	<p>The ultimate aim of the program is to support the process of institutional change at the ISSS so that it can assume gradually its basic function of providing health insurance. The specific objectives of the program are (a) to assist the ISSS with the design, testing, and evaluation of the mechanisms of institutional change that are needed to spur reform of the sector, (b) to lay the groundwork for building a consensus amongst the leading players on the institutional change at the ISSS, and (c) to strengthen the ISSS' strategic capacity to promote organizational learning and to produce and disseminate information in support of its institutional transformation.</p>	
Description:	<p>Under the present program, which is conceptually flexible and will be financed as an innovation loan, the ISSS will build a consensus and reach agreement to facilitate the fundamental changes that are needed for structural reform in the future. This incremental approach is expected to reduce the type of political debate inherent in reforms of this kind and to minimize the risks posed to future operations in the sector.</p>	

Although a consensus does not now exist in Salvadoran society on the best way to reform the social security health system, this program will raise resources to develop public information and social communications strategies that engender fundamental agreement on the institutional changes to the ISSS. In addition, the program will encourage the testing and evaluation of initiatives to prepare the ISSS and promote innovative actions in health services delivery and to expand health insurance coverage to groups in the informal sector. Upon completion of the program, the government will have a menu of policy-based options using the data collected and the lessons learned from the project.

The program will have a system of monitoring, evaluation, and learning to facilitate feedback by the ISSS. Major players in the health sector, including ISSS users and representative sector worker groups, will be involved in the operation of the system and its dissemination. A specialized firm of independent consultants, acceptable to the Bank, will be hired out of the proceeds of the financing to design and operate the system.

Given the program's innovative learning approach, it is essential that the results be appropriated and internalized as rapidly and as fully as possible. This means that an ISSS internal unit (the Planning Unit) with the technical capacity to coordinate the program would be preferable to using a coordinating or executing unit. In view of the foregoing, the executing agency will have a Technical and Administrative Support Unit (TASU), which will finance specialized consulting services. The costs of the TASU will be financed on a declining basis with program resources. In year one of the project, financing will be used to cover 70% of TASU costs, with the proportion falling to 35% from year two until completion of the program. The executing agency will cover the shortfall in TASU operating costs through specific allocations earmarked for this purpose in the local counterpart.

The program has been divided into three components:

Component 1. Preparation of ISSS for performance of health insurance function including (i) support to help prepare the ISSS as an institution for the task of designing, testing, and evaluating management instruments for developing a health insurance function and for improving basic management procedures in support of the strategy for institutional change, (ii) implementation of a pilot project to expand basic health coverage to groups in the informal sector, and (iii) the design of public information and social participation consensus-building strategies.

Component 2. Pilot project for contracting outpatient health services to perform small-scale controlled tests of innovations in the areas of bidding, contract adjudication, payments, and the production of a number of health services not requiring hospitalization.

Component 3. Pilot project for improving hospital management to test improvements in management and mechanisms to decentralize operations, performance budgeting, and outsources of certain support services such as laundry, security, and other similar support or administrative services at the *Roma and Amatepec*.

Relationship of the project to the Bank's country and sector strategy:

The strategy of ISSS transformation is fully consistent to the Bank's policy and its general strategy of support for national development. The Bank's policy seeks to spur economic development, macroeconomic stability, social well-being, and productive use of available resources. The Bank's strategy is intended to achieve its policy objectives by means of the following actions: (i) restoring economic growth, stability, and competitiveness, (ii) targeting poverty reduction and human capital development, and (iii) modernizing the State and increasing the levels of governance. The program entails activities designed to implement the Bank's strategy in an area of high impact for the well being of Salvadorian society. The lessons learned from the program will be useful in preparing a future operation of health sector reform. This program complies with the strategic guidelines fostered by the ISSS Administration and approved by its board of directors under the 2000-2005 five-year plan.

Environmental and social review:

The program is not expected to have any direct impact on the environment. As part of the program, basic hospital regulations have been conceived to permit testing and application of a government biosafety regulations, occupational health, and hospital waste management.

No change in the configuration of the ISSS or its staff size is anticipated under the program. It will foster the testing of joint service modalities, in which services offered by the private sector will be additional to, and supplement, what is now offered by the government.

Benefits:

The program is expected to produce a number of favorable social benefits of a short-term and medium-term perspective. In the short term, the main benefits are political and social to the extent that the program contributes to building a consensus on social security health reform and provides the GOES with a menu of policy options for ISSS institutional change.

In the medium term, if the process of institutional change that the program will promote as a pilot project becomes more widespread, its social impact will be considerable. In particular, initiatives such as improving health services management and broadening basic insurance coverage to include the informal sector will lead to further change down the road in the health sector so that poor and vulnerable groups can be brought into the social security system. In addition, adding reproductive health services to the basic health insurance scheme for the informal sector will serve as basis for further investment in human capital and improving the well being of women in El Salvador.

Risks:

The main risks associated with the program stem from: (a) the possibility that the lessons learned from this program are not incorporated into the future structural change of the sector, and (b) the resistance from organized labor to the new modalities for the delivery of service resulting from the transition to an operating system that features an insurance function. To alleviate these risks, the program has been designed such that during this stage financing will be provided only for controlled small-scale actions. In addition, the program provides for the design and early implementation of a system of monitoring, evaluation, and learning that, combined with public information and social communications strategies, will provide favorable management of the natural conflict that accompanies health sector reform.

Special contractual clauses:

As a condition precedent to submission of the program to the Board of Executive Directors of the Bank, an agreement must have been signed with the ISSS board of directors authorizing its management to enter into a funds transfer agreement with the Ministry of Finance. Conditions precedent to the first disbursement will be: (1) evidence that a funds transfer agreement has been signed between the borrower and the executing agency, and (2) evidence that the Technical and Administrative Support Unit has been set up.

For expenses in connection with preliminary and early start up activities incurred between 1 May 2000, and the date on which this operation is approved, the Bank may recognize up to US\$400,000 as chargeable to the IDB financing and up to US\$500,000 as chargeable to the local counterpart funding, provided that Bank procedures are followed.

Poverty-targeting and social sector classification:

Although this is not a poverty-targeted program the institutional reform to strengthen the ISSS insurance function and expand basic insurance coverage will open the way for institutional reforms that bring the poor and vulnerable into the social security system, and

integrate the ISSS with other players in the health sector, mainly the Ministry of Health.

The program does not promote changes in the configuration or size of the ISSS staff. It will encourage the testing of combined service modalities in which the private sector would provide coverage that supplements and complements the coverage now provided by the public sector.

**Exceptions to
Bank policy:**

None

Procurement:

International competitive bidding will be mandatory for all contracts valued at more than US\$250,000, in the case of goods, and at more than US\$200,000 in the case of services (paragraph 3.14).

In the case of contracts below these thresholds, procurement will be governed by the National Public Sector Procurement Act provided that these regulations do not conflict with the Bank's procurement policies, in which case they will be supplemented by the Bank's procedures.